

SERVICE DATE—SEPTEMBER 2, 2014

SURFACE TRANSPORTATION BOARD

Docket No. EP 552 (Sub-No. 18)

RAILROAD REVENUE ADEQUACY—2013 DETERMINATION

Digest:¹ The Board finds that five Class I railroads (BNSF Railway Company, Grand Trunk Corporation, Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation and Union Pacific Railroad Company) are revenue adequate for the year 2013, meaning that five of the Class I railroads achieved a rate of return equal to or greater than the Board's calculation of the average cost of capital to the freight rail industry.

Decided: August 29, 2014

This annual determination of railroad revenue adequacy under 49 U.S.C. § 10704(a)(3) is made in accordance with the standards and procedures developed in Standards for Railroad Revenue Adequacy (Standards I), 364 I.C.C. 803 (1981), Standards for Railroad Revenue Adequacy (Standards II), 3 I.C.C. 2d 261 (1986), and Supplemental Reporting of Consolidated Information for Revenue Adequacy (Supplemental Reporting), 5 I.C.C. 2d 65 (1988). Pursuant to those procedures, which are essentially mechanical, a railroad is considered revenue adequate under 49 U.S.C. § 10704(a) if it achieves a rate of return on net investment (ROI) equal to at least the current cost of capital for the railroad industry.²

In Railroad Cost of Capital—2013, EP 558 (Sub-No. 17) (STB served July 31, 2014), we determined that the 2013 railroad industry cost of capital was 11.32%. By comparing this figure to the 2013 ROI data obtained from the carriers' Annual Report R-1 Schedule 250 filings, we have calculated a revenue adequacy figure for each of the Class I freight railroads that were in operation as of December 31, 2013.

A summary of the ROIs for all Class I railroads is set forth in Appendix A to this decision. Appendix B provides the railroads' R-1 Schedule 250 data that was used to compute the ROIs. We find five carriers (BNSF Railway Company, Grand Trunk Corporation, Norfolk Southern Combined Railroad Subsidiaries, Soo Line Corporation and Union Pacific Railroad

¹ The digest constitutes no part of the decision of the Board but has been prepared for the convenience of the reader. It may not be cited to or relied upon as precedent. Policy Statement on Plain Language Digests in Decisions, EP 696 (STB served Sept. 2, 2010).

² In a separate proceeding, the Board announced that it would receive comments in Docket No. EP 722 to explore the Board's methodology for determining railroad revenue adequacy and the use of revenue adequacy in rate reasonableness cases. Railroad Revenue Adequacy, EP 722 et al. (STB served Apr. 2, 2014).

Company) to be revenue adequate for 2013.³ Our findings will be final on the effective date of this decision.

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

It is ordered:

1. This decision is effective on its service date.
2. Notice of this decision will be published in the Federal Register.

By the Board, Chairman Elliott, Vice Chairman Miller, and Commissioner Begeman.

³ Pursuant to Standards I, Standards II, and Supplemental Reporting, revenue adequacy determinations for Class I carriers are made on a system-wide basis, which includes certain railroad affiliates.

APPENDIX A

Railroad	ROI
BNSF Railway Company	14.01%
CSX Transportation, Inc.	10.00%
Grand Trunk Corporation (including U.S. affiliates of Canadian National Railway)	11.84%
Kansas City Southern Railway Company	8.67%
Norfolk Southern Combined Railroad Subsidiaries	12.07%
Soo Line Corporation (including U.S. affiliates of Canadian Pacific Railway)	12.03%
Union Pacific Railroad Company	15.39%

APPENDIX B

Railroad	BNSF	CSX	GT	KCS	NS	SOO	UP
Combined/Consolidated Net Railway Operating Income For Reporting Entity	4,109,408	1,664,968	833,386	236,020	1,953,722	352,325	4,409,921
Add: Interest Income from Working Capital Allowance – Cash Portion	44	0	8	41	250	63	0
Add: Income Taxes Associated with Non-Rail Income and Deductions	31,550	20,277	8,468	(236)	61,638	670	36,841
Add: Gain or (loss) from transfer/reclassification to nonrail-status (net of income taxes)	17,046	28,087	1,502	381	65,272	16	20,123
** Adjusted Net Railway Operating Income **	4,158,048	1,713,332	843,364	236,206	2,080,882	353,074	4,466,885
** Calculating the Adjusted Investment in Railroad Property for the Reporting Entity **							
Combined Investment in Railroad Property Used in Transportation Service – Ending Balance	42,487,880	25,409,168	10,427,524	3,651,515	25,481,558	4,193,700	41,693,204
Combined Investment in Railroad Property Used in Transportation Service – Beginning Balance	40,489,597	24,433,433	10,055,224	3,117,098	24,572,800	3,958,749	40,102,455
Combined Investment in Railroad Property Used in Transportation Service – Average	41,488,739	24,921,301	10,241,374	3,384,307	25,027,179	4,076,225	40,897,830
Other Elements of Investment – Ending Balance	0	0	1,788	0	0	1,135	0
Other Elements of Investment – Beginning Balance	0	0	1,863	0	0	1,135	0
Other Elements of Investment – Average	0	0	1,826	0	0	1,135	0
Interest During Construction – Ending Balance	0	0	2,113	4,320	2,580	6,365	43,287
Interest During Construction – Beginning Balance	0	0	2,113	4,320	2,580	2,626	43,295
Interest During Construction – Average	0	0	2,113	4,320	2,580	4,496	43,291
Net Rail Assets of Rail Related Affiliates – Ending Balance	0	0	143,560	5,014	0	0	0
Net Rail Assets of Rail Related Affiliates – Beginning Balance	0	0	141,883	4,155	0	0	0
Net Rail Assets of Rail Related Affiliates – Average	0	0	142,722	4,585	0	0	0
Working Capital Allowance – Ending Balance	1,175,490	244,082	92,522	82,561	825,851	103,227	1,222,302
Working Capital Allowance – Beginning Balance	1,150,143	311,484	73,221	92,300	830,664	137,428	972,578
Working Capital Allowance – Average	1,162,817	277,783	82,872	87,431	828,258	120,328	1,097,440
Accumulated Deferred Income Tax Credits – Ending Balance	13,371,410	8,221,301	3,387,475	816,597	9,090,242	1,323,703	13,383,789
Accumulated Deferred Income Tax Credits – Beginning Balance	12,564,227	7,909,716	3,289,708	678,074	8,123,071	1,188,572	12,474,139
Accumulated Deferred Income Tax Credits – Average	12,967,819	8,065,509	3,338,592	747,336	8,606,657	1,256,138	12,928,964
Tax Adjusted Net Investment Base – Ending Balance	30,291,960	17,431,949	7,272,230	2,918,173	17,214,587	2,965,724	29,488,430
Tax Adjusted Net Investment Base – Beginning Balance	29,075,513	16,835,201	6,976,644	2,531,159	17,277,813	2,903,844	28,557,599
* Tax Adjusted Net Investment Base *	29,683,737	17,133,575	7,124,437	2,724,666	17,246,200	2,934,784	29,023,015
TAX ADJUSTED RETURN ON INVESTMENT	14.01%	10.00%	11.84%	8.67%	12.07%	12.03%	15.39%

The line item descriptions in this schedule are defined in the instructions to the Schedule 250 appearing in Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes, 5. I.C.C. 2d 65, 80-82 (1988). The Schedule 250 form and instructions are not published in the Code of Federal Regulations.